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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT OF THE UNFPA MANAGEMENT OF IMPLEMENTING PARTNERS

FINAL REPORT

Nº IA/2023-21

12 December 2023

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EXECUTIVE SUMMARY

1. The UNFPA Office of Audit and Investigation Services (OAIS) conducted an audit of the UNFPA Management of Implementing Partners (the Process or Implementing Partner Management). Audit planning and fieldwork activities commenced on 17 August 2020 at UNFPA's Division for Management Services and the Policy and Strategy Division. The audit aimed to assess the adequacy and effectiveness of governance, risk management, and controls relating to Implementing Partner Management.
2. Between 2019 and 2021, UNFPA collaborated with 1,623, 1,651 and 1,728 Implementing Partners,¹ respectively, across 155 countries. In 2021, Implementing Partners incurred USD 427 million in expenses to deliver programme activities, constituting 33 per cent of UNFPA's total expenses that year.
3. The audit covered activities relating to Implementing Partner Management, specifically focusing on governance processes and arrangements, the policy framework, and HACT assurance activities undertaken between 1 January 2019 and 31 December 2022. The audit assessed 'second line role'² controls, including HACT assurance activities, and reviewed 53 previously issued OAIS audit reports to various UNFPA Field Offices.³ Interviews to support audit conclusions and recommendations were conducted with staff drawn from 12 Field Offices and other relevant stakeholders.
4. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (The IIA).

Audit rating

5. OAIS issued an overall audit rating of "***Partially Satisfactory with Some Improvement Needed***",⁴ which means that the assessed governance arrangements, risk management practices, and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.
6. The audit provided recommendations to address the following issues: (a) a siloed approach to Implementing Partner management; (b) non-alignment of UNFPA HACT assurance processes with the corporate risk appetite; (c) inadequacies in the existing approach to Implementing Partner micro-assessments; and (d) systemic issues with HACT spot-checks and IP selection processes.

Good practices identified

7. The audit identified the following practices, which enhanced governance, strengthened internal controls, and improved risk management in Implementing Partner Management:
 - (a) Inter-agency collaboration – The Quality Management Unit⁵ formally convened an inter-agency HACT working group 'Implementing Partner Inter-Agency Group',⁶ which functioned as a forum to exchange information on and facilitate implementation of the HACT Framework. The Group,

¹ An entity to which the Executive Director has entrusted the implementation of UNFPA programme activities specified in a signed document, along with the assumption of full responsibility and accountability for the effective use of UNFPA resources and the delivery of outputs, as set forth in such programme documentation - Policy and Procedures for Selection, Registration and Assessment of Implementing Partners.

² The 'second line role' is part of The IIA's Three Lines Model and provides complementary expertise, support, and monitoring related to the management of risk.

³ UNFPA Regional Offices, Sub-Regional Offices, Country Offices, and Liaison Offices.

⁴ See complete set of definitions in Annex 1.

⁵ Unit of the UNFPA Division for Management Services based at Headquarters.

⁶ "The Harmonized Approach Cash Transfers Working Group" is a group that consists of representatives from the following UN entities: UNFPA, UNDP, UNICEF, UNHCR, UN Women, WFP, FAO, WHO, IOM (observers), OCHA and the UN Secretariat.

which hitherto existed informally with limited membership (i.e., only three UN organizations) and few meetings, was revitalized through the UNFPA initiative.

- (b) Capacity building - The Quality Management Unit, the UNFPA Finance Branch, and Operational Support and Quality Assurance Branch⁷ conducted targeted webinars and other training sessions focusing on HACT, Last Mile Assurance, and Protection from Sexual Exploitation and Abuse, to enhance the skills and competencies of UNFPA personnel.
- (c) Integrated Risk Management - A new risk model for Implementing Partner assurance, incorporating quantified indicators for operating context risk through the INFORM⁸ risk index, was launched in 2023 and an Implementing Partner Review Committee established to streamline risk management within the Process. At the time of drafting this report, other initiatives were under development to integrate new features in Quantum⁹ to facilitate enhanced risk management.

Key recommendations Total = 4, high priority = 2

8. For high priority recommendations, prompt action is required to ensure that UNFPA is not exposed to high risks (i.e., where failure to act could result in critical or major consequences for the Organization). All high priority recommendations are presented below.

9. Low-risk issues, not included in this report, were discussed directly with Management and actions initiated to address them.

Strategic level

10. The Organization should review the Process to strengthen its governance structure and promote a more cohesive approach by: (a) Adopting a framework to enhance cross-functional collaboration and streamline policies and procedures to ensure a cohesive approach to Implementing Partner Management, which facilitates risk analyses and responses across all the business units responsible for the Process; (b) Leveraging the ongoing implementation of the Implementing Partner management module in Quantum to integrate existing tools and legacy systems to create a unified Implementing Partner management process to support a comprehensive management framework, including the possibility of an umbrella policy on Implementing Partner Management; and (c) Clarifying and standardizing Implementing Partner Management-related roles, responsibilities, and reporting mechanisms with regard to Regional Offices to ensure consistent and comprehensive risk monitoring and streamlined, efficient second-line controls that are aligned to those of the relevant Headquarter units.

Operational level

11. There is a need to develop a dynamic, customizable micro-assessment questionnaire or other suitable platform that can be adjusted according to Implementing Partners' profiles, scale of operations, types of activities, and other points of uniqueness in assigning risk ratings and improving the efficiency and effectiveness of Implementing Partner risk assessments. In addition, the Organization should update relevant policies and procedures to require new micro-assessments when there are significant changes in Implementing Partners' operating contexts.

Implementation status of previous OASIS audit recommendations

12. This was the first OASIS audit of Implementing Partner Management. As such, there were no previous internal audit recommendations.

13. The United Nations Board of Auditors included 'Emphasis of Matter' paragraphs in its audit opinions on UNFPA's financial statements for 2019 and 2020, primarily in relation to low assurance

⁷ Functions were formerly with the Policy, Strategic Information and Planning Branch.

⁸ The INFORM Risk Index is a global, open-source risk assessment for humanitarian crises and disasters.

⁹ UNFPA's new enterprise resource planning system implemented as from January 2023.

coverage and deficiencies in monitoring and timely execution of assurance activities in relation to Implementing Partner Management. The paragraphs were dropped from the audit opinion issued by the United Nations Board of Auditors on the Organization's financial statements for 2021 – an indication of significant improvement in governance and oversight in this crucial area. The Board of Auditors issued 19 recommendations between 2020 and 2022, of which 85 per cent were fully implemented at the time of drafting this report.

Management comments and action plan

14. Management accepted all recommendations in this report. Comments and/or additional information provided have been incorporated in the report, where appropriate.

15. The Directors, Division for Management Services and the Policy and Strategy Division will implement the recommendations following the modalities proposed under the response section of each recommendation. Overall, Management found the audit exercise very useful and takes this opportunity to thank the OAIS team for its support and guidance.

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I. AUDIT BACKGROUND

1. UNFPA's commitment to delivering effective reproductive health, gender equality, and population development programmes depends on strong partnerships with Implementing Partners (IP) that implement its work in all geographical regions.

2. Between 2019 and 2021, UNFPA collaborated with 1,623, 1,651 and 1,728 IPs, respectively, across 155 countries. In 2021, IPs incurred USD 427 million in expenses to deliver programme activities, constituting 33 per cent of UNFPA's total expenses that year. Cash advances to the Partners were made based on the HACT¹⁰ Framework, and non-cash transfers in accordance with UNFPA's Last Mile Assurance (LMA) process. Each United Nations (UN) organization, including UNFPA, that adopted the HACT Framework was required to integrate HACT principles and processes into its organizational guidelines.

3. At UNFPA, the framework for managing IPs comprises several policies, procedures, and guidelines owned by various UNFPA units. HACT processes are managed by the Quality Management Unit (QMU). However, the Process is multi-tiered and cross-cutting with responsibilities dispersed throughout the Organization, involving other business units such as the Policy and Strategy Division (PSD) and the UNFPA Finance Branch.

4. The audit covered activities relating to IP management, specifically focusing on governance processes and arrangements, the policy framework, and HACT assurance activities undertaken between 1 January 2019 and 31 December 2022. The audit assessed 'second line role'¹¹ controls, including HACT assurance activities, and reviewed 53 previously issued OAIS audit reports to various UNFPA Field Offices.¹² Interviews to support audit conclusions and recommendations were conducted with staff drawn from 12 Field Offices and other relevant stakeholders.

5. As set forth in the 2020 OAIS Annual Work Plan, an audit of the Process commenced on 17 August 2020 at UNFPA's Division for Management Services (DMS) and PSD. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (promulgated by The IIA), which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and internal control processes in place. The audit aimed to assess the adequacy and effectiveness of governance, risk management, and control processes over IP Management.

6. As this was the first OAIS audit of the Process, there were no previous internal audit recommendations. However, the United Nations Board of Auditors (UN BoA) raised significant concerns in its audit opinions on UNFPA's financial statements for 2019 and 2020. The concerns were captured in 'Emphasis of Matter' paragraphs included the audit opinions, primarily in relation to low assurance coverage and deficiencies in monitoring and timely execution of assurance activities. It should be noted that the 'Emphasis of Matter' paragraphs were dropped from the audit opinion issued by UN BoA on the Organization's financial statements for 2021 – an indication of significant improvement in governance and oversight in this crucial area. UN BoA issued 19 recommendations between 2020 and 2022, of which 85 per cent were fully implemented at the time of drafting this report.

7. OAIS held several meetings with Management between December 2021 and February 2022 to discuss preliminary audit findings and recommendations. However, due to significant corporate changes that were underway at the time and hitherto unforeseen developments in OAIS, the audit was postponed and relaunched in February 2023.

¹⁰ Harmonized Approach to Cash Transfers.

¹¹ The 'second line role' is part of The IIA's Three Lines Model and provides complementary expertise, support, and monitoring related to the management of risk.

¹² UNFPA Regional Offices, Sub-Regional Offices, Country Offices, and Liaison Offices.

UNFPA IPs

8. Types of IPs in the UNFPA context include programme country Governments, organizations or entities of the UN system, intergovernmental institutions or agencies not part of the UN system, non-governmental organizations, and academic institutions.

9. UNFPA works with IPs to deliver programmes in reproductive health, gender equality, and population development. The IPs are fully responsible and accountable to UNFPA for adequately managing the programmatic and financial aspects of approved workplans and delivering expected results. They are an essential part of UNFPA's business model as one of the key implementation modalities, and their engagement is critical to implementing, delivering, and achieving UNFPA's strategic goals.

IP governance process

10. As noted above (paragraph 3), the framework for managing IPs encompasses several policies, procedures, and guidelines owned by several business units or functions. Among these are the Policy and Procedures for Cash Transfers to Implementing Partners, Policy and Procedures for Selection, Registration and Assessment of Implementing Partners, and the Policy and Procedures for Preparation and Management of Workplans. Further, the Process is multi-tiered and cross-cutting, involving various business units with distinct roles and responsibilities. For example:

- (a) QMU whose responsibilities include: (i) accountability for risk-based management and assurance of IPs, achieved through monitoring and oversight of all HACT processes; (ii) monitoring of assurance data and mitigation of material gaps in performance; (iii) management of partnerships through development of tools, guidance, and processes; and (iv) development and issuance of risk tolerances.
- (b) The Operational Support and Quality Assurance Branch (OSQAB) of PSD is responsible for (i) developing policies, tools, processes and guidance on IP Management regarding partnership modalities, workplan design and approval, and programme monitoring; (ii) operationalizing the Sexual Exploitation and Abuse (SEA) Protocol, including integrating it into existing UNFPA programme policies and business processes, and providing technical guidance and support to Field Offices; (iii) developing guidance on SEA¹³ with technical input from the Office of the Executive Director; (iv) managing the registration of partners and issuance of UNFPA partner codes; (v) managing UNFPA's role in the UN Partner Portal; and (vi) managing IP agreements.
- (c) The Protection from Sexual Exploitation and Abuse (PSEA) Unit within the Office of the Executive Director is responsible for reviewing and assessing the adequacy of corrective actions taken by IPs when they have past allegations of SEA.
- (d) The Supply Chain Management Unit (SCMU) assumed responsibility for the LMA process in January 2022 to oversee coordination, end-to-end visibility, and accountability for all supply chain management-related activities. The LMA process provides reliable evidence on whether UNFPA programme supplies are adequately managed and safeguarded across all levels of the supply chain, minimizing waste and fraud, and timely and effectively reaching the "last mile". Key responsibilities over the LMA process include (i) conducting capacity and risk assessments to identify the strengths and weaknesses of IPs; (ii) monitoring compliance by Field Offices with policies and requirements for tracking, recording, and reporting inventory through the annual certification process; and (c) conducting spot-checks and audits.
- (e) UNFPA Field Offices are responsible for overall coordination and oversight of IP Management. Country Offices work with IPs to develop, implement, and deliver country-specific programme activities and provide ongoing support and guidance. Regional Offices support and guide

¹³ Guidance for UNFPA Operationalization of the United Nations Protocol on Allegations of Sexual Exploitation and Abuse Involving Implementing Partners

Country Offices on Process issues. They also play a role in coordinating and harmonizing IP management practices across regions.

11. In 2021 and 2022, UNFPA collaborated with 1,651 and 1,728 IPs, incurring USD 427 million (37.6 per cent of UNFPA's total expenditures in the year) and 487 million (38.5 per cent of UNFPA's total expenditures in the year), respectively, in 155 countries. Expenditures, broken down by IP type, were as follows:

Table 1¹⁴ – Expenditures by Implementing Partners in 2021 and 2022

	2021 USD '000	2022 USD '000
Total IP expenditures	427,977	487,797
<i>Of which were expended by:</i>		
Governments	103,012	104,911
Non-governmental organizations	305,291	363,786
United Nations organizations	19,674	19,100

Harmonized Approach to Cash Transfers

12. Cash advances to IPs during the period under review were made based on the HACT Framework, a common operational framework first adopted by UNDP, UNICEF, WHO and UNFPA following United Nations General Assembly Resolution 56/201 in 2002, subsequently updated in 2014. The framework is used by government and non-governmental organizations to transfer cash, regardless of whether they work with one or more UN organizations. It aims to align development aid with national priorities and to strengthen national management and accountability capabilities with the ultimate objective of gradually shifting to national systems.¹⁵

13. HACT assurance activities are risk-based and focus on verification of programme implementation and use of UNFPA resources by IPs. Financial monitoring has three components: (a) Spot-checks; (b) HACT scheduled audits; and (c) special audits. The scope and frequency of assurance activities are influenced by IPs' risk profiles and ratings, as determined through spot-checks, micro assessments, audits, and volume of disbursements.

¹⁴ Source: Report of UN Board of Auditors-Financial Report and Audited Financial Statement for the year-ended 31 December 2021 and 2022

¹⁵ <https://unsdg.un.org/resources/harmonized-approach-cash-transfers-framework>

II. AUDIT RESULTS

1. The audit results, including good practices identified and matters that require Management attention, are presented below:
2. The following practices were identified:
 - (a) In March 2020, QMU formally convened, with the participation OSQAB, an inter-agency HACT working group 'Implementing Partner Inter-Agency Group',¹⁶ which acts as a forum to exchange information and facilitate implementation of the HACT Framework. The Group, which hitherto existed informally with limited membership (i.e., only three UN organizations) and few meetings, was revitalized through UNFPA's initiative and, despite restrictions brought about by the COVID-19 pandemic, continued to meet regularly up to the time of drafting this report and increased its membership base to include several other UN organizations; and
 - (b) QMU, the UNFPA Finance Branch, and OSQAB conducted webinars and other training sessions on HACT, LMA, and PSEA to enhance UNFPA personnel skills and competencies in critical areas such as HACT assurance planning and use of the PSEA assessment tool, and to support rollout of the supply chain process covering logistic mapping, reporting, risk assessments, and spot-checks.
3. The audit noted the following matters that require management attention.

Issue 1 Siloed approach to IP management

4. Each business unit involved in the IP management operated independently, following its own guidelines, and fulfilling specific responsibilities. QMU had overall responsibility for the HACT process and assurance planning. At the same time, the UNFPA Finance Branch managed cash advances to IPs, with SCMU overseeing LMA processes. Concurrently, OSQAB focused on developing policies, tools, and guidance on the remaining elements of the Process. This segmentation of IP management fostered siloed operations and undermined having an integrated approach to risk management.
5. A review of workflows and discussions with relevant UNFPA personnel involved in IP Management highlighted the following challenges:

- (a) Siloed approach to IP capacity assessments: Various policies and procedures require different types of IP capacity assessments depending on the typology of IPs and their mandates. Examples include (i) mandatory PSEA self-assessments for IPs that interact with beneficiaries; (ii) HACT micro-assessments; (iii) Supply Chain Management (SCM) capacity assessments; and (iv) LMA capacity assessments for IPs that handle UNFPA programme supplies.

At the time of drafting this report, the above disparate capacity assessments were conducted independent of each other, with distinct objectives, methodologies, and criteria, and overseen by different business units. This siloed approach lacked formalized coordination and integration. Consequently, an IP that, for example, received both cash advances and UNFPA programme supplies in a single year would have to undergo three separate capacity assessments, potentially leading to inefficiencies and inconsistencies in the evaluation process.

- (b) Lack of integration of multiple IT systems used in the Process: At the time of writing this report, a phased rollout of the IP management module in Quantum and its integration with legacy technology tools and systems limited overall visibility of IP management processes, making it difficult to get a holistic view of IP data and information, as the systems in use were not fully linked or integrated. Different business units relied on their own tailored systems to fulfil their IP management responsibilities. For example, QMU employed the Implementing Partner Assurance System (IPAS) for HACT assurance activities, the UNFPA Finance Branch used a separate electronic payment

¹⁶ The Harmonized Approach Cash Transfers Working Group is an informal group that consists of representatives from the following UN entities: UNFPA, UNDP, UNICEF, UNHCR, UN Women, WFP, FAO, WHO, IOM (observers), OCHA and the UN Secretariat.

request system to manage cash advances to IPs and a spreadsheet-based system to monitor LMA-related assurance activities.

Given the above context, the UN Partner Portal¹⁷ emerged as a vital repository tool, aiding in the management of IP registration and selection processes. It also served as a shared UN platform for risk management and quality assurance, offering opportunities for a more integrated approach in these areas.

- (c) Limited oversight of IP management at the regional level: As per their terms of reference, Regional Offices are, as part of 'second line role' controls, assigned responsibility to provide guidance and oversight on matters requiring substantive alignment with global and regional operations. However, existing policies and procedures attributed limited IP management and oversight roles and responsibilities to UNFPA Regional Offices with respect to the Process and, hence, provided little guidance.

At the time of the audit fieldwork, only half of the Regional Offices reported on HACT-related IP assurance and LMA activities. The number and type of outputs and milestones reported on varied in scope and detail across the Regional Offices. The lack of guidance, compounded by inconsistencies and disparities of outputs and milestones reporting, undermined UNFPA's ability to have comprehensive visibility over IP Management and to monitor risks effectively.

6. At the time of drafting this report, Management was proactively streamlining programmatic monitoring with assurance activities amongst the relevant business units, to address the above challenges.

Root Cause *Guidelines: Inadequate management structure (lack of a coordinated management and oversight approach to IP Management).*

Impact *A fragmented IP management process decreases productivity (effectiveness and efficiency), increases operational challenges, and impacts good stewardship of funds.*

Category *Strategic.*

Recommendation No. 1	Priority: High
<p>Review the Implementing Partner management process to strengthen its governance structure and promote a more cohesive approach by:</p> <ul style="list-style-type: none"> (a) Adopting a framework to enhance cross-functional collaboration and streamline policies and procedures to ensure a cohesive approach to Implementing Partner Management, which facilitates risk analyses and responses across all the business units responsible for the Process; (b) Leveraging the ongoing implementation of the Implementing Partner management module in Quantum to integrate existing tools and legacy systems to create a unified IP management process to support a comprehensive management framework, including the possibility of an umbrella policy on Implementing Partner management; and (c) Clarifying and standardizing Implementing Partner management-related roles, responsibilities, and reporting mechanisms with respect to Regional Offices, to ensure consistent and comprehensive risk monitoring and streamlined, efficient second-line controls that are aligned to those of the relevant Headquarter units. 	
<p><u>Managers Responsible for Implementation</u>: Directors, DMS and PSD</p>	

¹⁷ The UN Partner Portal is an online platform that facilitates engagement between civil society organizations and the United Nations, including UNFPA, for partnership opportunities. Launched in 2018, the portal streamlines the process of identifying and managing partners. It supports registration, document storage, and partner searches. The portal encourages process harmonization, and it replaces the UNFPA Partner Information Management System (PIMS), which was previously in use.

<p><u>Status</u>: Agree.</p>
<p>Management action plan: Management proposes to:</p> <ul style="list-style-type: none"> (a) Review existing processes, policies, procedures, as well as risk analyses and responses, to the extent possible, with the aim of enhancing the IP management governance structure and cohesion; (b) Collaborate with the Information Technology Solutions Office to incorporate, to the extent possible, all key IP management processes, information, and data in Quantum Plus; and (c) Consider a review of Regional Office roles, responsibilities, and reporting mechanisms in the IP management process for consistent and comprehensive monitoring and risk management. <p>Estimated completion date: December 2025.</p>

Issue 2 HACT assurance process not aligned with the corporate risk appetite

7. The HACT Framework outlines assurance activities, including spot-checks, programmatic monitoring, and audits. The requirement for IP audits¹⁸ and spot-checks in the HACT assurance process was mainly driven by micro-assessment risk ratings, threshold amounts of UNFPA expenditures reported by IPs, and the results of past assurance activities. The expenditure threshold amounts, a significant determinant, were set annually by QMU, approved by the Director of DMS and the Executive Committee,¹⁹ and communicated across UNFPA through written guidance and webinars.

8. IP Assurance Guides (the Guides) issued annually by DMS align well with UNFPA's Enterprise Risk Management requirements and cover key areas such as risk assessment, response, governance, and monitoring. However, with the recent adoption of a formal corporate risk appetite statement, there is an emerging need to align IP expenditure thresholds for assurance activities, outlined in the Guides, with the Organization's stated risk appetite. Specifically, the Guides do not articulate how HACT assurance activities, and risk ratings and categories correspond to the Organization's risk appetite. The lack of alignment makes it difficult to evaluate whether the expenditure thresholds are well calibrated for risk mitigation.

9. Despite commendable assurance rates exceeding 93 per cent²⁰ that covered substantial amounts of IP expenditures, concerns persist regarding high resource allocations to assurance activities. In response, UNFPA has progressively adjusted its approach to assurance planning, reducing audit coverage while mandating more spot-checks to achieve a more balanced assurance coverage rate that takes into consideration the cost of assurance activities. However, feedback from Field Offices during the audit obtained through interviews and surveys, suggested that assurance activities were becoming increasingly burdensome under the adjusted approach – indicating that it was too resource-intensive. Those interviewed or surveyed indicated that the existing HACT assurance strategy tends to overemphasize audits and spot-checks and could be optimized by adopting a more targeted and risk-based approach that is more aligned to the corporate risk appetite and that positions, in addition to spot-checks and audits, programme monitoring as an integral and valuable component of the strategy.

10. Further, the Field Offices highlighted that spot-checks and audits were more focused on verifying supporting documentation for financial transactions, leaving out the programmatic aspects of IP

¹⁸ HACT audits are part of the second line of defense' and are performed by a third-party auditor engaged by UNPFA to provide reasonable assurance on the appropriate use of funds provided to IPs in accordance with UNFPA reporting requirements and IP agreements.

¹⁹ The Executive Committee approval of the expenditure threshold amounts Started in 2022

²⁰ Source: IPAS covering period 2017 to 2021

Management. There was no system to plan and collect data on workplan monitoring activities, and limited oversight of programmatic activities at the Regional and Headquarter levels.

11. UNFPA has made notable strides in transitioning from a compliance-based to a more risk-based approach to IP assurance. The change was facilitated by an enhanced IP risk model, intended to guide assurance activities, which incorporates contextual factors, aligning the approach more closely to UNFPA's risk management strategy. However, the phased rollout of the Quantum solution and absence of integrated systems (see paragraph 5(b)) for the IP management process posed challenges in fully operationalizing the new model.

Root Cause *Guidelines: Inadequate corporate policies or procedures (IP Assurance Guides that do not align with the Organization's stated risk appetite).*

Impact *HACT assurance activities may not be well calibrated to the Organization's risk appetite, leading to ineffectual oversight and increased financial and operational risks.*

Category *Strategic.*

Recommendation No. 2	Priority: Medium
<p>Enhance the IP management process by:</p> <ul style="list-style-type: none"> (a) Articulating how assurance activities, risk ratings, and categories, as outlined in IP Assurance Guides, align with UNFPA's defined risk appetite or tolerance; and (b) Further refining the new risk-based methodology/strategy for assurance planning to a more targeted and risk-based approach that optimizes assurance coverage vis-à-vis economic use of organizational resources. 	
<u>Managers Responsible for Implementation:</u> Directors, DMS and PSD	
<u>Status:</u> Agree	
<p>Management action plan: Management will review risk-based methodology and assurance thresholds for alignment to the corporate risk tolerance.</p> <p>Estimated completion date: December 2024.</p>	

Issue 3 Inadequacies in the approach to Implementing Partner micro-assessments

12. HACT micro-assessments involve interviews with IP personnel and review of documents to complete questionnaires. The results of the micro-assessments, along with other available information, are used to determine the type and frequency of assurance activities. They are also considered in selecting appropriate cash transfer modalities for IPs.

13. Several concerns were raised by HACT and IP focal persons at Field Offices about the prevailing practice of employing a one-size-fits-all questionnaire for all IP micro-assessments, regardless of IP typology, organizational nature, programme materiality, operating environments or contexts, types of activities, etc. The existing questionnaires were not adaptable to better evaluate unique risks associated with different types of IPs. Thus, for example, a micro-assessment of an academic institution receiving USD 50,000 from UNFPA for a relatively risk-free research activity was identical to that of an IP operating in a complex humanitarian context and receiving USD 200,000. This approach compromised the efficacy of micro-assessments since it failed to consider dissimilarities across a broad spectrum of IPs.

14. Further, activity-based assessments were not supported by the questionnaires - a potential source of inefficiency and ineffectiveness in completing micro-assessments given the widely disparate nature of programmatic activities in which IPs are involved. For instance, an IP expected to implement training activities would not necessarily need an in-depth assessment in areas such as fixed assets and inventory management. Similarly, it would be more efficient and effective to assess an IP responsible for conducting a census primarily on its ability to manage census-related activities rather than other non-related programme areas.

15. In addition, the questions used in micro-assessments were equally weighted – with the scoring of less significant questions potentially diluting the value of the more relevant and essential risk questions when aggregated to compute an overall risk rating for an IP. This was particularly evident in the 2021 micro-assessment listing generated from IPAS.²¹ Of the 1,734 assessments conducted, 146 IPs (eight per cent) received a high-risk rating, and 68 (four per cent) received a significant risk rating. Most assessments (1,520 or 88 per cent) received moderate or low-risk ratings. As shown in Table 2, in high-risk countries²² like Afghanistan, Somalia, and Yemen, most IPs were categorized under low or moderate risk ratings despite accounting for significant workplan amounts. The audit noted that the expenditure-to-risk ratio for 2022, which compares total expenditures to the percentage of low or moderate-risk IPs across high-risk countries, closely aligns with 2021 data. The homogenized weightage system gives rise to skewed and often understated risk ratings.

Table 2 - 2021 Risk Rating Analysis

High-risk countries	Percentage of IPs with low or moderate risk ratings	Percentage of total expenditures incurred by low or medium-risk-rated IPs	Work Plan Amount (USD millions)
Republic of Yemen	95	98.5	37.9
Somalia	98	99.3	19.9
Syrian Arab Republic	71	81.0	12.5
Afghanistan	58	78.0	10.6
South Sudan	77	92.0	10.1

16. Further, under existing policies and procedures and HACT assurance guidelines, substantial changes in an IP's scope of work and complexity of activities undertaken did not mandate a new micro-assessment, even though such changes may significantly affect the IP's risk profile. For instance, an IP involved in training with a relatively low budget activity could be engaged to conduct census activities with a significantly higher budget and increased complexity, effectively rendering the IP's initial micro-assessment ineffectual given the significant change in scope of activities and finances to be managed. Under existing rules, such an IP would not be required to undergo a new micro-assessment.

Root Cause *Guidelines: Inadequate corporate policies or procedures (flawed micro-assessment questionnaire design).*

Impact *IP micro-assessments may not be effective in identifying and addressing risks and IP capacity gaps, affecting the ability of Management to make informed decisions.*

Category *Operational.*

²¹ IPAS data extracted as of 3 May 2023

²² Countries classified as high risk according to the 2020 OAIIS annual risk assessment, the 2020 UNFPA ERM risk ranking, and the 2019 Corruption Perception Index (CPI).

Recommendation No. 3	Priority: High
<p>Leveraging UNFPA's membership in the 'Implementing Partner Inter-Agency Group", develop a dynamic, customizable questionnaire or other suitable platform that can be adjusted according to IPs' profiles, scale of operations, types of activities, and other points of uniqueness in assigning risk ratings and improving the efficiency and effectiveness of Implementing Partner risk assessments. In addition, update the relevant policies and procedures to require new micro-assessments when there are significant changes in IPs' operating contexts.</p>	
<p><u>Managers Responsible for Implementation:</u> Director, DMS.</p>	
<p><u>Status:</u> Agree.</p>	
<p>Management action plan: As part of the HACT inter-agency collaboration, UNFPA, UNICEF, UNDP, FAO, UN Women and WHO agreed on a revised IP capacity/micro assessment that was formally adopted for use by UNFPA starting January 2023. The purpose of the risk assessment is to determine IPs' capacity. It does not represent overall risk which considers other factors, including operating context, past assurance history and performance, programme activities to be undertaken, etc. Management has incorporated overall risk assessment in the current implementing partner assurance system using the adjusted risk rating functionality. Adjusted risk considers operating context (INFORM risk index), complex/high-risk activities, other local contextual considerations, new partners with no working history, substantial increase in funding managed by an IP, and results from previous assurance activities. The recommendation has, therefore, been implemented. Estimated completion date: February 2024.</p>	

Issue 4 Systemic issues with HACT spot-checks and IP selection processes

17. A review of 53 previous OAI audit reports issued between 2018 and 2023 to various Field Offices indicated systemic gaps in two critical areas - HACT spot-checks and selection processes for non-governmental IPs. The following issues were observed in 28 reports (52 per cent).

Poor quality of HACT spot-checks

18. Recurrent issues regarding the quality of spot-checks undertaken by various Field Offices were noted in 15 reports. The issues revolved around the absence of a structured methodology for selecting transaction samples for testing, limited scope of spot-checks, and poor records of spot-check activities and results. Most reports attributed the root causes to inadequate supervision and training at the Field Office level. Interviews with both programme and operations staff drawn from 12 Field Offices, including those covered by the audit reports, indicated competing priorities with other daily tasks, lack of dedicated resources for spot-checks, and complicated worksheets used to document the spot-checks, as factors affecting the quality of spot-checks.

Non-competitive selection of IPs

19. According to policy²³ UNFPA must be able to fully justify selecting an IP in a non-competitive manner.

20. Thirteen (13) reports showed instances where there was either insufficient or complete absence of documentation to support competitive selection of IPs, compromising both the transparency and validity of the selection processes followed. Three reports noted the absence of policy-mandated documented justification in cases where IPs were selected on a non-competitive basis.

²³ Policy and Procedures for Selection, Registration and Assessment of Implementing Partners, December 2021.

Root Cause *Resources: Insufficient human resources – skills and numbers (inadequate supervision and training at the Field Office level, competing priorities, and heavy workloads).*

Impact *Financial management and reporting gaps at IPs may not be timely detected and corrected.*
IPs engaged may not be the best available to implement UNFPA programme activities to the highest quality and in a cost-effective manner.

Category *Operational.*

Recommendation No. 4	Priority: Medium
<p>Address the systemic issues noted in HACT spot-checks and selection of Implementing Partners by:</p> <ul style="list-style-type: none"> (a) Emphasizing to Field Offices a need to reallocate resources strategically to fulfill the critical role of HACT spot-checks, including following applicable guidance and training relevant staff on the need guidelines on the quality of spot-checks. (b) Sensitizing Field Offices, through training, on the need to follow policy provisions on non-competitive IP selection processes; and monitor compliance through regular review of information in the United Nations Partners Portal. 	
<p><u>Manager Responsible for Implementation:</u> Director, DMS</p>	
<p><u>Status:</u> Agree</p>	
<p>Management action plan: Management proposes to:</p> <ul style="list-style-type: none"> (a) Explore options to ensure adequate resources are dedicated to assurance, especially for spot-checks; (b) Develop and roll out a spot check e-course for staff to ensure that staff undertaking spot-checks understand the process and guidance available well; (c) Require consistent use of the United Nations Partner Portal for the selection of partners to ensure compliance; and (d) Provide training to Field Offices on the selection of IPs. <p>Estimated completion date: December 2025.</p>	

ANNEX 1 - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,²⁴ are explained below:

Satisfactory		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area's objectives.</p>
Partially satisfactory with some improvement needed		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.</p>
Partially satisfactory with major improvement needed		<p>The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.</p>
Unsatisfactory		<p>The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could seriously compromise the achievement of the audited entity or area's objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.</p>

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

Guidelines: absence of written procedures to guide staff in performing their functions

- Lack of or inadequate corporate policies or procedures
- Lack of or inadequate Regional and/or Country Office policies or procedures
- Inadequate planning
- Inadequate risk management processes
- Inadequate management structure

Guidance: inadequate or lack of supervision by supervisors

- Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
- Inadequate oversight by headquarters

Resources: insufficient resources (funds, skills, staff) to carry out an activity or function:

- Lack of or insufficient resources: financial, human, or technical resources
- Inadequate training

²⁴ Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

Human error: un-intentional mistakes committed by staff entrusted to perform assigned functions

Intentional: intentional overriding of internal controls.

Other: factors beyond the control of UNFPA.

C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories are used:

- **High** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the Organization).
- **Medium** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority management actions, if any, are discussed by the audit team directly with the Management of the audited entity during the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic** High level goals, aligned with and supporting the entity's mission
- **Operational** Executing orderly, ethical, economical, efficient, and effective operations and safeguarding resources against loss, misuse, and damage
- **Reporting** Reliability of reporting, including fulfilling accountability obligations
- **Compliance** Compliance with prescribed UNFPA regulations, rules, and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions

GLOSSARY

Acronym	Description
COVID-19	Coronavirus
DMS	Division for Management Services
ERM	Enterprise Risk Management
FAO	Food and Agriculture Organization of the United Nations
HACT	Harmonized Approach to Cash Transfers
IP	Implementing Partner
IPAS	Implementing Partner Assurance System
LMA	Last Mile Assurance
OAIS	Office of Audit and Investigation Services
OSQAB	Operational Support and Quality Assurance Branch
PSD	Policy and Strategy Division
PSEA	Protection from Sexual Exploitation and Abuse
QMU	Quality Management Unit
Quantum	New Enterprise Resource Planning system being implemented in UNFPA.
SCM	Supply Chain Management
SCMU	Supply Chain Management Unit
SEA	Sexual Exploitation and Abuse
UN	United Nations
UN BoA	United Nations Board of Auditors
UNFPA	United Nations Population Fund
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
USD	United States Dollars
WHO	World Health Organization
WFP	World Food Programme